



**STATE INVESTMENT BOARD  
BOARD ADOPTED POLICIES**

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**POLICY NUMBER:** 2.65.200

**EFFECTIVE DATE:** 9/19/02

**TITLE:** Advanced College Tuition Payment Program

**SUPERSEDES:** 10/25/01

**BOARD ADOPTION:** 9/19/02

**APPROVED:**

Two handwritten signatures in black ink, one appearing to be "J. [unclear]" and the other "B. [unclear]".

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**PURPOSE:**

This document outlines the investment policy and guidelines for the Advanced College Tuition Payment Program (commonly referred to as the Guaranteed Education Tuition (GET) Program) and supersedes any prior board adopted policies.

These guidelines allow for sufficient flexibility in the management process to capture investment opportunities, while providing parameters that ensure prudence and care in the execution of the investment program.

The investment responsibility for the GET Program is granted to the State Investment Board (SIB) in accordance with RCW 28B.95.070.

**POLICY:**

**Standard of Care**

Under RCW 43.33A.030, trusteeship of this trust is vested within the voting members of the Board. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the Board and its staff must comply with other state laws, such as the Ethics In Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives listed below.

**Investment Objectives**

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for the program considering the program's need to meet or exceed the growth rate of tuition costs. Based on this requirement the order of the objectives shall be:

1. Maintain the solvency of the fund and the financial stability of the program as measured by the external actuary.
2. Ensure sufficient assets are available to fund the expected college tuition payments.

3. Subject to one and two above, achieve a maximum return that will meet or exceed the rate of growth in college tuition costs over a ten-year period, at a prudent level of risk.
4. Invest in a manner that will not compromise public confidence in the program.

### **Performance Objectives**

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach.

The fund has both a long-term absolute goal and several relative performance objectives:

1. Achieve or exceed a 4.5 percent real rate of return relative to inflation, as measured by the Consumer Price Index (CPI), over a ten-year period.
2. Achieve or exceed an absolute annual rate of return of 7.5 percent over a ten-year period.
3. Relative to asset allocation targets, generate a return equal to, or in excess of, the passive benchmark portfolio. The SIB will establish a passive benchmark that reflects GET's unique asset allocation policy.

### **Risk Constraint Standards**

1. All assets under management by the SIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140.
2. No corporate fixed income issue's cost shall exceed three percent of the fund's market value at the time of purchase, nor shall its market value exceed six percent of the fund's market value at any time (RCW 43.33A.140).
3. Diversify the assets at a prudent level to moderate fluctuations in the market value of the program.

### **Balance of Risk and Return**

Given the need to meet or exceed the rate of college tuition inflation over a long time period and the ranking of investment objectives, the investment portfolio will fall toward the upper-end of the risk/return efficient frontier. The over-riding objective is to ensure the investment assets meet or exceed the estimated liabilities.

### **Asset Allocation**

The asset allocation mix will be reviewed every three years, or sooner, if there are significant changes in program size, funding status, or liability duration.

Capital market conditions, funding status, and liability assumptions are dynamic, not static. Consequently, the SIB staff will meet at least annually with the GET Committee, administrative staff, and the external actuary to review the investment portfolio and the financial status of the program. The SIB has delegated to the executive director the authority to rebalance the asset allocation within the procedures established in the SIB Investment Policies & Procedures, Volume 3.

Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first, by using normal cash flow and second, by the reallocation of assets across asset classes. The timing of the rebalancing will be based upon market opportunities and the consideration of transaction costs, and therefore need not occur immediately.

ASSET ALLOCATION	Target	Range*
U.S. Equities	40 percent	35-45 percent
Non-U.S. Equities	20 percent	16-24 percent
Inflation Indexed Bonds (fixed income)	40 percent	35-45 percent
Cash	0 percent	0-5 percent

The program will issue installment purchase contracts with a 7.5 percent interest rate. If these are heavily used, then the asset allocation will be reviewed to include these receivables as an asset class.

\* The above policy ranges are long term and may deviate in the short term as a result of funding schedules and interim market movements.

### **Asset Class Structure**

The SIB establishes asset class structure with wide guidelines for staff to move assets in order to achieve the fund's overall objectives.

#### **Equity**

U.S. Equity - The benchmark and structure for U.S. equity will be to passively track the broad U.S. stock market as defined by the Wilshire 5000.

*The objective will be to match the return of the Wilshire 5000, net of costs.*

Non-U.S. Equity - The benchmark and structure for international equity will be to passively track the developed markets as defined by Morgan Stanley.

*The objective will be to match the return of MSCI EAFE + Canada, net of costs.*

### Fixed Income

The long-term goals of the asset class are to return 325 basis points more than inflation, and to limit volatility for the total portfolio. The goals will be met primarily through the purchase of inflation indexed bonds, but may include other fixed income securities when staff believes market conditions warrant the purchase of them.

### Permissible Investments

1. Inflation Indexed Bonds
2. U. S. Treasuries and Government Agencies
3. Credit Bonds
4. SIB Bond Market Fund and cash equivalent funds managed on behalf of the SIB.

Although fixed income securities that are rated below investment grade by Moody's Investors Service (Moody's) may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated, may continue to be held. "Investment grade" is defined as rated Baa3 or higher by Moody's.

### **PERFORMANCE REVIEW GUIDELINES AND REPORTING:**

Performance will be measured by the custodian bank and reported quarterly by the SIB staff to the Board.

### **RESPONSIBILITIES:**

State Investment Board - Responsible for approving the investment policy and setting the investment objectives, risk standards, and asset allocation.

Public Markets Committee - Responsible for reviewing and recommending the strategic policy to the Board, and for reviewing the structure, strategy and performance of the funds.

SIB Staff - Responsible for recommending enhancements and changes to the investment policy to the Public Markets Committee; and, implementing policy, managing the assets, rebalancing the asset allocation, and reporting performance and policy compliance to the Public Markets Committee, the Board, and the GET Committee.